

Affordable Housing Has Become Unaffordable to Build

A 'perfect storm' of rising costs makes it hard to keep rents low, say non-profits.



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Pricey delays are in store for non-profit developments like Harmony in Surrey due to inflation and construction costs. Photo courtesy of Integra Architecture via Uniti.

It took a year and four months between the Harmony housing project's initial rejection and eventual approval (https://surrey.ca.granicus.com/DocumentViewer.php?file=surrey_264ba52c215302e1570ab689261e3c2a.pdf&view=1) by Surrey city council — the product of a hard-fought campaign in lead up to a fierce municipal election, with candidates throwing their support behind the project one by one.

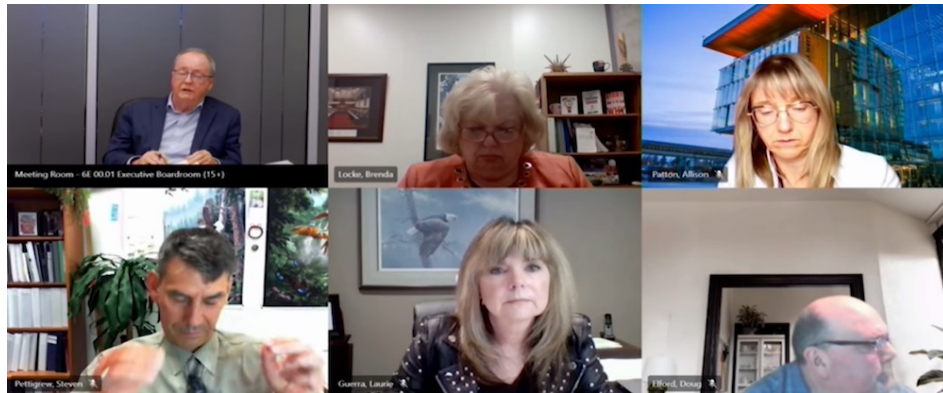
City council never formally explained why they rejected Harmony at first, despite receiving (<https://www.peacearchnews.com/news/south-surrey-inclusive-housing-project-defeated/>) hundreds of responses and thousands of signatures in support of the project, dwarfing the opposition. In a few interviews with media, councillors did express that neighbours were concerned about the building project's height, despite its six-storey design being in line (<https://www.vancouverisawesome.com/bc-news/surrey-council-turfs-non-profit-housing-approves-four-condo-towers-4167082>) with the area's plan.

But now, Uniti, a partnership of three non-profits, is finally going ahead with Harmony, which will offer 91 units of below-market housing at a time when Surrey says (<https://www.surrey.ca/sites/default/files/media/documents/Surrey-Housing-Needs-Report-Executive-Summary-03-2022.pdf>) it needs them by the thousands.

However, that delay of over a year comes at a time of rising construction costs and inflation. From an initial price tag of \$36.6 million, the cost to build Harmony has ballooned to \$57.5 million.

“The banal indifference of decision-makers who later on saw the light and realized that it was a product that should be happening... had such a dire impact,” said Doug Tennant, Uniti’s CEO.

“We’re still going to build it. That’s the vow that I made, that Uniti has made. There’s such a great need. But it’s just much more difficult than if it had been approved when it should’ve been approved.”



A screenshot from the July 2021 meeting in which Surrey city council rejected the Harmony project by 5-3 vote, with then-mayor Doug McCallum voting against. Screenshot via City of Surrey livestream.

Construction costs have jumped 51 per cent since the start of the pandemic, according (<https://thoughtleadership.rbc.com/proof-point-soaring-construction-costs-will-hamper-canadas-homebuilding-ambitions/>) to a recent RBC analysis of Statistics Canada data.

Everyone erecting buildings is feeling the crunch, from non-profit housing providers like Uniti to private real estate developers.

Some developers have paused (<https://www.theglobeandmail.com/canada/british-columbia/article-home-construction-costs/>) their projects, waiting for costs to come back down. Others have cancelled

(https://www.chba.ca/CHBA/News/Low_builder_confidence_improves_slightly_but_lack_of_buyers_still_hurting_overall_industry_sentiment.aspx) them entirely. For developers of rental buildings still going ahead (<https://www.theglobeandmail.com/business/article-construction-industry-struggles-to-meet-unprecedented-building-cost/>) with their projects, charging higher rents can help compensate for costs. Renters have few options due to low vacancy rates and average listings in the province have jumped (<https://rentals.ca/national-rent-report>) 31 per cent in the past three years, according to Rentals.ca.

These are not options for non-profit housing providers. Abandoning projects or charging market rents is out of the question when their mission is getting people into affordable homes.

But trying to forge ahead, in a climate that has even spooked private developers, means that the rising costs will eat into the amount of housing non-profits could have provided.

If they don't want to go over budget, non-profits might have to reduce the size and scope of their projects. Otherwise, they'll have to spend more money to get their projects built — if they have access to such capital at all.

All the while, market rents are hitting record highs (<https://vancouversun.com/news/local-news/average-asking-price-for-canadian-rental-unit-hits-record-high>) in Canada, with Vancouver leading the way. According to Rentals.ca, an average one-bedroom in August went for \$3,013 a month.

Non-market housing, as offered by non-profits and public agencies, is in greater need than ever.

“We've felt for a long time like a canary in the coal mine or Cassandra from Greek mythology,” said Tennant, referring to the cursed priestess whose prophecies were never believed. “We've been telling everyone that this is a crisis, that we need do something *now*.”

Supply chain strains

Architect Patrick Stewart was on the frontlines managing supply chain disruptions for his non-profit clients during the pandemic, from sourcing items to the rising cost of raw materials.

“It's kind of like the stock market,” said Stewart. “Prices go up and down, though they rarely go down.”

In particular, concrete and lumber (<https://markets.businessinsider.com/news/stocks/lumber-prices-top-1600-first-time-amid-homebuilding-boom-2021-5-1030392438>) spiked due to halted production, while labour strikes (<https://globalnews.ca/news/8937818/concrete-strike-metro-vancouver-construction-delays-supply-chain/>) and environmental disasters interrupted transportation of goods. Labour costs went up too, having long been experiencing a shortage.

There were other inconvenient surprises. The carpet tile manufacturer that he ordered from in the past went bankrupt. Then without telling him, a contractor ordered a different faucet than the one he had specified because it was cheaper and easier to find.

On the labour front, Stewart went through four mechanical contractors for a multi-storey project in downtown Vancouver because they couldn't find workers.

“If a builder can't secure enough skilled trades to complete projects, it results in the domino effect of construction delays,” said Neil Moody, CEO of the Canadian Home Builders' Association of BC.

Together with inflation, the Canadian Mortgage and Housing Corp. expects (<https://www.theglobeandmail.com/business/article-cmhc-home-construction-inflation-labour-shortage/>) home completions to plunge by 32 per cent compared to last year.

“It’s not just British Columbia. You look around the world, there’s inflationary pressures everywhere,” said Moody.

“If there are projects cancelled or put into abeyance because of the higher interest rate environment, it’s just going to put everyone behind the eight ball moving forward because the demand is still there.”

Breaking bank, breaking even

“It’s really been a perfect storm of rising costs,” said Jill Atkey, CEO of the BC Non-Profit Housing Association, which represents over 700 housing providers.

It’s not that there wasn’t provincial funding during the pandemic to subsidize new affordable housing. The problem was that the province “burned through dollars much more quickly than they could’ve anticipated,” she said.

For projects not yet under construction, some non-profits have gone back to the drawing board to reduce unit size, amenity spaces and energy efficiency to break even.

Large non-profits could dip into their own equity to pay the millions in difference, but that meant taking it out from plans for future housing projects. Small non-profits without such capital had to go back to the province for funding.

“Delays in construction obviously means delays in people moving into these new homes,” said Atkey.

For units that have restricted rents “baked” into the project, housing providers have to wait for senior government funding to fill the equity gap because they’re not allowed to raise them, she said. However, units without such restrictions means housing providers will have to rent them out for higher than they originally intended.

The recent provincial budget’s boost (<https://news.bchousing.org/bc-budget-2023-makes-significant-investments-in-housing/>) in housing spending has the current, higher costs in mind. Federal funding programs (<https://www.cmhc-schl.gc.ca/professionals/project-funding-and-mortgage-financing/funding-programs/all-funding-programs/co-investment-fund>), however, have not yet caught up, she says.

“It comes down to the economics of development. Governments are committed to solving the affordability crisis, but we need them to be additionally committed in terms of bringing more equity to bear.”

A race against rising costs

If Harmony had been approved by Surrey city council the first time around, it would’ve now been six months away from completion, said Doug Tennant.

He called the 2021 rejection “cold hearted” considering who the building is for: students, families, seniors and essential workers who’d be otherwise priced out of Surrey. Of the 91 units, 30 per cent will be just below market rents, 50 per cent will be geared to income and 20 per cent will be extremely affordable, around \$375 a month. Some units will be set aside for people with intellectual disabilities.



Harmony supporters and Doug Tennant, centre, in the early hours of Nov. 29, 2022, after the project passed its third reading. Photo courtesy of Doug Tennant.

Uniti campaigned hard in the aftermath of the rejection, producing video testimonies (<https://uniti4all.com/harmony/>) and garnering support from nearby businesses, the local BC United MLA Trevor Halford, the CEO of the Surrey Board of Trade, and David Eby when he was the NDP’s housing minister.

Council eventually reconsidered and the project was approved.

Harmony has shown Tennant that cities need to act quickly on affordable housing and avoid charging non-profits the same fees as private developers.

Back in 2016, Uniti built Chorus, the city’s first rental apartment building in 30 years, with below-market rents and units reserved for people with developmental disabilities. That project required about \$1.3 million (<https://www.peacearchnews.com/news/south-surreys-chorus-development-a-model-we-want-to-replicate/>) in permits and development fees to the city.

In Vancouver (<https://council.vancouver.ca/20220622/documents/pspc2.pdf>) and even Surrey’s next-door neighbour Delta (<https://www.delta-optimist.com/local-news/big-costs-to-be-removed-for-new-delta-low-cost-rental-housing-5438923>), there are waivers for affordable housing projects.

Tennant is hopeful that Surrey’s new council under Mayor Brenda Locke will make processes smoother for housing providers like Uniti.

But there's still the matter of the additional \$20 million that Uniti will need to find to build Harmony, likely through loans and fundraising. One bit of relief is that Uniti already owns the land, on which one of its non-profit partners offers 52 townhomes at below-market rents. Seventeen of them will be demolished to make way for the 91-unit Harmony.

Costs, community rejection and municipal hurdles can be discouraging to housing providers who don't have the money or staff to push through and realize a building, says Tennant. Which is why it's important for municipalities to make things easier for them when they share the same goals.

“When elections happen and councils come in with no or very little understanding of affordable housing, they reject projects because they're not perfect. Then guess what happens? Nothing happens.

“If you have an organization that's putting millions of dollars of their own risk and equity into a project and the community supports that, then you as a decision-maker need to do everything you can to support that project.

“Municipalities have to step up, fast-track and lead — not be the barrier to these types of housing.” ■